



INVESTMENT MANAGER'S REPORT TO INVESTORS

Zank Income Fund

6 AUGUST
2019



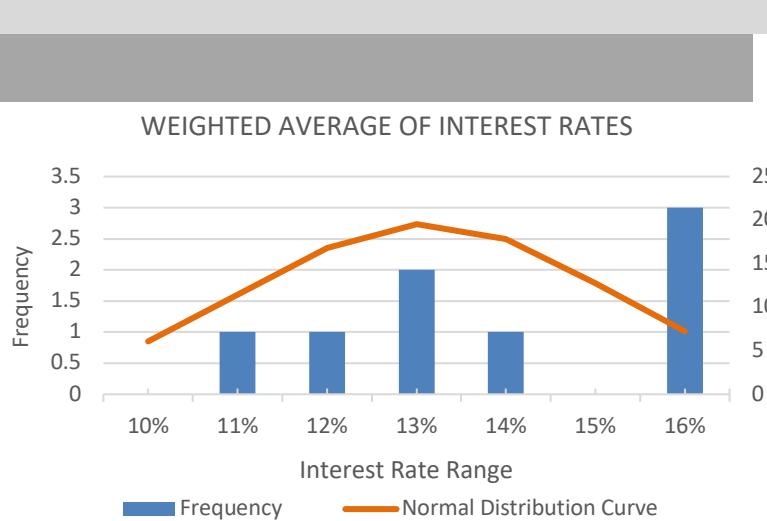
DEAR INVESTORS

Zank & Company Pty Ltd (Zank) would like to thank you for your investment in the Zank Income Fund (Fund).

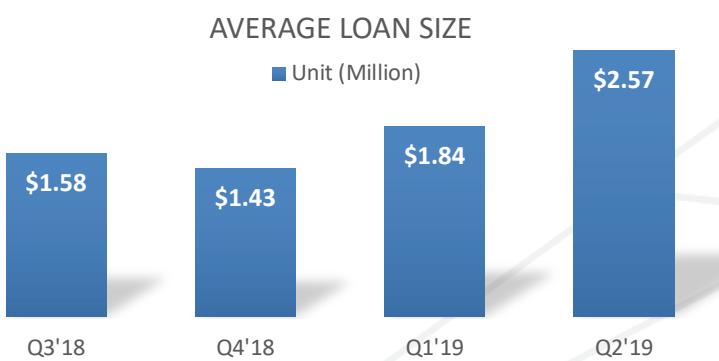
The Fund is a wholesale mortgage managed investment scheme which provides investors with access to the attractive returns available from investments by managed investment schemes in loans secured by registered first and second mortgages held over Australian property. This allows investors to gain exposure to investment opportunities otherwise unavailable to them, as well as providing investors with access to Zank's investment management expertise.

As Investment Manager of the Fund, Zank manages the Fund's investment portfolio. A review of each borrower's serviceability and ability to repay debt is conducted on an ongoing basis.

The objective of the Fund is to invest in mortgage backed loans secured by Australian real estate with the aim to generate a stable income for investors. Loans will be made to borrowers to use for commercial or investment purposes.

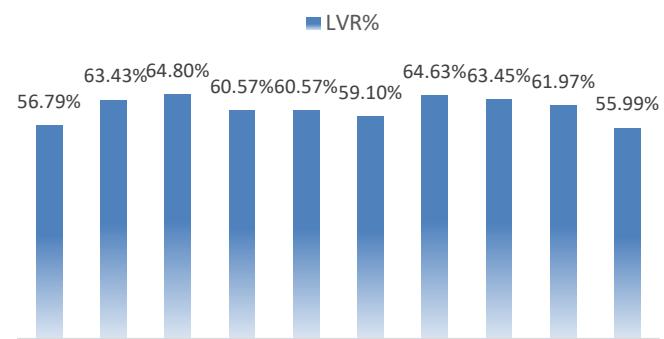


Based on our data of the interest rates charged on the loans the Fund has invested into, as at 30 June 2019, the weighted average of interest rates was approximately 13.12%.



Per the bar chart above, the average loan amount has gradually increased, rising from \$1.58million in Q3'18 to \$2.57million in Q2'19. This increase is around 1.6 times.

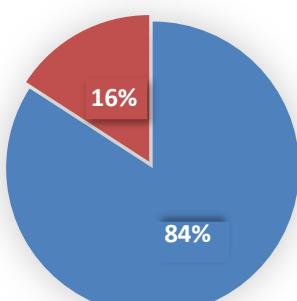
AVERAGE LOAN TO VALUATION RATIO



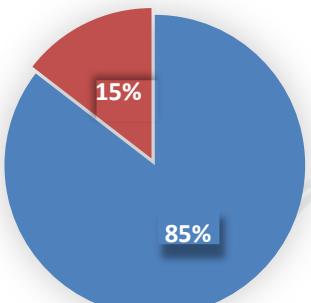
Q1'17 Q2'17 Q3'17 Q4'17 Q1'18 Q2'18 Q3'18 Q4'18 Q1'19 Q2'19

Due to previous policy tightening adopted by the Australian government, market liquidity has weakened relatively, and Zank's internal processes have become stricter in order to be responsible to investors. As a result, compared to previous quarters, the average Loan to Value Ratio (LVR) has fallen gradually, reducing from 59.10% in Q2'18 to 55.99% in Q2'19.

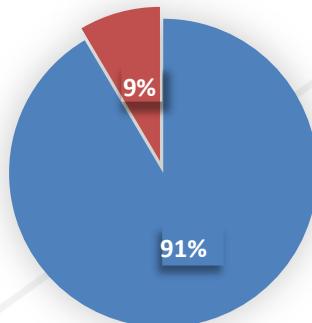
Sector Allocation in Q3'18



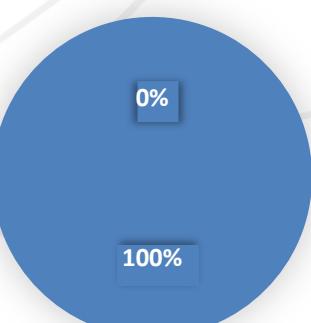
Sector Allocation in Q4'18



Sector Allocation in Q1'19



Sector Allocation in Q2'19



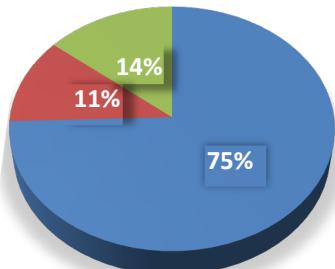
■ First Mortgage ■ Second Mortgage ■ First Mortgage ■ Second Mortgage

In regard to our current mortgage portfolio, the percentage of second registered mortgages in our portfolio has been shrinking from Q3'18 to Q2'19. As at 30 June 2019, all the mortgages in our portfolio were first registered mortgages, although this is subject to change.

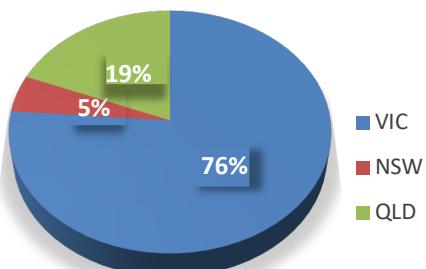
Contact Us

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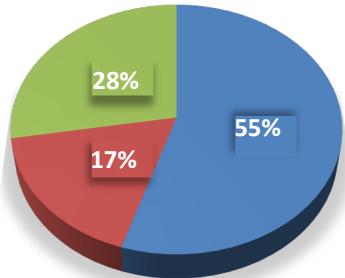
Geographic Allocation in Q3'18



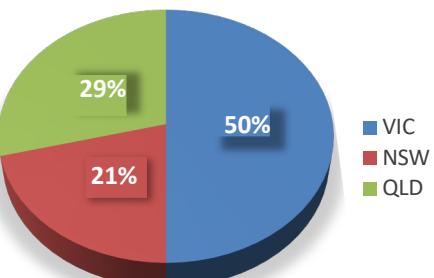
Geographic Allocation in Q4'18



Geographic Allocation in Q1'19



Geographic Allocation in Q2'19



Based on the geographical allocation data collected, although the allocation rate went down from 75% in Q3'18 to 50% in Q2'19, most registered mortgage was located in Victoria. In addition, the proportion of registered mortgage in Queensland and New South Wales were increased, raised to 29% and 21% respectively, as at 30 June 2019.

The Australian Prudential Regulation Authority (APRA) announced on July 5, 2019 that it will proceed with its updated guidance on residential mortgage lending and the new guidance takes effect immediately.¹ Under the new guidance, banks will be able to set their own serviceability buffers.² 'The removal of the interest rate floor comes amid falling house prices, record-low credit growth, and expectations that the Reserve Bank will cut interest rates this year.'³ This current bank lending change could increase people's borrowing capacity and thereby see more people taking out a mortgage. This could improve liquidity in the mortgage market.⁴

As the market turnover rate increases, the market will likely become more active and we are optimistic about the future development potential for the mortgage market.

We would like to thank you for your continued support in the Fund. Please do not hesitate to contact our office if you have any questions.

Kind regards

Conghan Hu
Managing Director

Disclaimer

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This report contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons) investment objectives, financial situation or particular needs, and should not be used as the basis for making an investment in the Fund. Neither Vasco, Zank nor Kehlmann make any representation as to the accuracy, completeness, relevance or suitability of the information, conclusions, recommendations or opinions contained in this report (including, but not limited to any forecasts made). No liability is accepted by any of these entities or their respective directors, officers, employees, agents or advisors for any such information, conclusions, recommendations or opinions to the fullest extent possible under applicable laws.

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This document is not an Information Memorandum for the purposes of the Act. Accordingly, it does not purport to contain all information that potential investors may need to make an informed assessment as to whether or not to invest in the Fund.

Some numerical figures in this publication have been subject to rounding adjustments.

Contact Us

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¹ Australian Prudential Regulation Authority, 'APRA finalises amendments to guidance on residential mortgage lending', 5 July 2019 <<https://www.apra.gov.au/media-centre/media-releases/apra-finalises-amendments-guidance-residential-mortgage-lending>>.

² David Chau, 'APRA's home loan rule relaxation will allow for bigger mortgages', ABC News, 5 July 2019 <<https://www.abc.net.au/news/2019-07-05/apra-relaxes-mortgage-lending-restrictions/11282066>>.

³ Ibid.

⁴ Ibid.